

Testimony of:

**Timothy Donahue**  
**President and Chief Executive Officer**  
**Nextel Communications, Inc.**

before the

**House Energy and Commerce Committee**

hearing on

**Competition In The Communications**  
**Marketplace: How Technology Is Changing the**  
**Structure of the Industry**

**March 2, 2005**

## SUMMARY OF TESTIMONY

- Nextel is currently the fifth largest wireless service provider in the United States, serving over 16 million customers. Nextel provides its innovative all-digital wireless services in 202 of the largest 300 markets in the U.S., where nearly 217 million people live or work. Together with Nextel Partners, Inc., we serve 297 of the top 300 U.S. markets where approximately 261 million people live or work. Following our merger with Sprint, the nation's third largest carrier, Sprint Nextel will rank third in total number of wireless customers.
- Since the company's founding in 1987, Nextel has been an entrepreneurial, customer-focused competitor with important differentiating technology. This customer focus and product innovation has resulted in Nextel having some of the most loyal customers in the industry. Nextel realizes by far the highest average revenue per unit in the industry and has one of the lowest churn rates. Our customers like our products and services and they tend to use them more than the typical wireless customer.
- The wireless industry today is one of the most competitive, dynamic and fastest growing industries in the U.S. This is an industry that is characterized by robust competition and innovation. Our merger with Sprint will only accelerate these trends. Sprint Nextel will be well positioned in the fastest growing areas of the telecommunications industry, including mobile data and push-to-talk features, where Sprint and Nextel are innovators in technology. With Sprint's global Internet network, the new company will be positioned to provide differentiated communications solutions through integrated applications for business and government and new broadband wireless services for consumers.
- Sprint Nextel will generate efficiencies that will benefit customers, shareholders and employees and will allow the new company to invest in innovative new services that each company would have found to be more difficult and expensive on its own.
- This is a pro-competitive combination that will provide customers with real and compelling product and service choices, including wireless multi-media, web browsing, messaging, gaming and music on the go. For business customers, Sprint Nextel will be able to provide more robust integrated wireless and IP-based wireline solutions. We will be able to invest to deploy next-generation wireless data services, bringing new and compelling products to market to benefit consumers and businesses. And importantly, for all customers, we will be able to cost effectively invest to improve wireless network quality and coverage.
- The merger will maintain the strong commitment Nextel has to the public safety community and its unique communications needs.

**Prepared Testimony of**

**Timothy Donahue  
President and Chief Executive Officer  
Nextel Communications, Inc.**

**Hearing Before the Committee on Energy and Commerce**

**March 2, 2005**

Introduction

Mr. Chairman and Members of the Committee, my name is Tim Donahue, and I am president and chief executive officer of Nextel Communications, Inc. I appreciate the opportunity to be a part of today's hearing on the role of technology in mergers within the telecommunications industry. It is a theme that captures the entrepreneurial spirit of our company and speaks directly to its founding.

Since 1987, Nextel has been a pioneering, customer-focused competitor with important differentiating technology. This customer focus and product innovation has resulted in Nextel having some of the most loyal customers in the industry. Nextel realizes by far the highest average revenue per unit and has one of the lowest churn rates in the industry. Our customers like our products and services and they tend to use them more heavily than the typical wireless customer.

Nextel is currently the fifth largest wireless service provider in the United States, with a team of 19,000 dedicated employees serving more than 16 million customers.

Nextel provides its innovative all-digital wireless services in 202 of the largest 300 markets in the U.S. where nearly 217 million people live or work. Together with Nextel Partners, Inc., we serve 297 of the top 300 U.S. markets where approximately 261 million people live or work.

Nextel provides a wide range of digital wireless voice and data communications services over its all-digital, packet data network based on integrated Digital Enhanced Network, or *iDEN*®, wireless technology developed in conjunction with Motorola, Inc. Operating on licenses in the 800 MHz and 900 MHz bands, Nextel's *iDEN* network provides a comprehensive suite of advanced wireless services and features, including digital wireless mobile telephone service, Nationwide Direct Connect® and International Direct Connect<sup>SM</sup> walkie-talkie feature and such wireless data services as Internet access and short messaging. In particular, Nextel's Direct Connect® walkie-talkie feature is a significant and innovative advancement over traditional analog dispatch services, augmenting critical communications systems for the public safety community. More specifically, the Direct Connect walkie-talkie feature expands the typical dispatch service coverage area, uses the spectrum more efficiently, and provides extra security through digital multiplexing technology.

### The Wireless Industry Today

The wireless industry today is one of the most competitive, dynamic and fastest growing industries in our country and is critical to the nation's GDP. From the

workplace to the classroom and to the home, wireless devices and their applications play an expanding role in our everyday lives. According to CTIA – The Wireless Association, wireless subscribers grew from slightly more than 97 million in 2000 to more than 169 million as of June 2004. Total industry revenues for 2004 are expected to tally more than \$100 billion, as compared to approximately \$50 billion in 2000. Customer minutes of use have increased, coverage and service has improved and innovative new services have been made available. Yet the average monthly consumer bill has increased less than 10 percent over the past five years and the price per minute of use has dropped by an overwhelming 81 percent to under 10 cents in June 2004. This is an industry that is characterized by robust competition and innovation, and it is an exciting time to be in it.

#### Sprint/Nextel Merger

On December 15, 2004, Nextel and Sprint announced their intention to merge, with the new company to be called Sprint Nextel. Sprint and Nextel are being valued as equal partners in the merger where shareholders will own 50.1 percent and 49.9 percent, respectively. A highly experienced management team will lead Sprint Nextel, combining the expertise of both companies. Gary D. Forsee, currently chairman and chief executive officer of Sprint, will become president and chief executive officer of Sprint Nextel, and I will become chairman of the new company. Together we have a proven track record of leadership and nearly six decades of industry experience. Further, the Sprint Nextel Board will consist of 12 directors, six from each company, including two co-lead independent directors.

Following the close of the merger, Sprint Nextel intends to separate Sprint's local telecommunications business, including consumer, business and wholesale operations from its other businesses and then spin this separated company off to the Sprint Nextel shareholders sometime in 2006, pending customary regulatory approvals.

The combination of Nextel and Sprint will result in a wireless company with more than 40 million customers (35 million direct and 5 million through affiliates and partners), a strong growth profile, a strong spectrum position, the most valuable customers and networks that directly cover nearly 262 million people, more of the U.S. population than any other carrier; yet Sprint Nextel will be only the third largest carrier in terms of subscribers. Sprint Nextel will have a balanced mix of consumer, business and government customers, and the ability to meet the communications needs of a broader range of customers than either company on its own. We will be the only full service communications provider not affiliated with or owned by a Bell operating company.

Sprint Nextel will be well positioned in the fastest growing areas of the telecommunications industry, including mobile data and push-to-talk features, where Sprint and Nextel are innovators in technology. With Sprint's global Internet network, the new company will be positioned to provide differentiated communications solutions through integrated applications for business and government and new broadband wireless services for consumers. Without this merger, neither Nextel nor Sprint would

independently achieve all the technical innovations, additional coverage and capacity that I discuss later in my testimony today.

Mr. Chairman, if I had to describe in one word why this proposed merger makes sense and should be approved, it is “growth.” I am confident that Sprint Nextel will generate efficiencies that will benefit customers, shareholders and employees and will allow the new company to invest in innovative new services that each company would have found to be more difficult and expensive on its own. The new company will capitalize on its leadership position in key growth areas, unmatched asset mix, clear technology migration path, brand strength, innovative products and services and talented employees. We share compatible cultures built on traditions of innovation and competitiveness. We will have the resources to develop and deploy compelling, differentiated services by unleashing the combined strengths of the two companies, each of which is recognized as a product and network innovator.

The Sprint Nextel merger is a pro-competitive combination that will provide customers with real and compelling product and service choices, including wireless multi-media, web browsing, messaging, gaming and music on the go. For business customers, we will be able to provide more robust integrated wireless and IP-based wireline solutions. We will be able to deploy next-generation wireless data services, bringing new and compelling products to market to benefit consumers and businesses, including a potential third new platform to the home. And importantly, for all customers,

we will be able to cost effectively invest to improve wireless network quality and coverage.

There are technology synergies between Sprint and Nextel that make this merger unique. Sprint Nextel will have a clear technology migration path and valuable and extensive network and spectrum assets. The new company will have robust wireless network capabilities, including a nationwide 800 MHz *i*DEN network and a national 1.9 GHz CDMA network, which it will enhance to include nationwide cutting-edge EV-DO Rev.A, high-speed data services. We will deploy a high performance push-to-talk feature on the CDMA network and create interoperable gateways between the *i*DEN and CDMA networks, thereby enabling our current and future customers to select the services that most effectively meet their wireless communications needs. Sprint Nextel will also have the capability to deploy new wireless interactive multimedia services on the two companies' 2.5 GHz combined spectrum holdings that together can reach 85 percent of the households in the top 100 markets.

Sprint Nextel will also use Sprint's nationwide backbone wireline (long distance) network that includes 30 Sprint-owned metropolitan area networks in the U.S. as well as 37 international fiber points of presence. These combined capabilities are expected to make Sprint Nextel a key partner for the largest content providers, systems integrators, mobile virtual network operators and other new telecommunications entrants. By partnering with content providers and entrepreneurs, Sprint Nextel will offer the full



portfolio of consumer services - voice, data, video, wireline and wireless – as well as customized enterprise applications and integrated business solutions.

As with any merger, there also will be opportunities for savings through synergies. The combined Sprint Nextel is expected to deliver operating cost and capital investment synergies with an estimated net present value of more than \$12 billion, over 37 percent of which is expected to come from the avoided network capital costs of building a separate Nextel next-generation network. These synergies will also include reduced network operating expenses; reduced network capital costs resulting from sharing cell site locations and facilities; lower access costs as a result of migrating Nextel backhaul and other telecommunications traffic to Sprint's long haul infrastructure; reduced network capital expense after the merger by building a true IP-based multimedia network; and reduced expenses due to economies of scale in the combined companies' sales, marketing, general and administrative and IT costs.

#### Public Safety

Nextel has a long and proud history of working closely with police, fire, emergency communications officials and the rest of the public safety community. We support their efforts with our products and services and work closely with them in designing communications tools that make us all more secure. Sprint and Nextel have agreed that the combined company will assume and honor all obligations that Nextel has accepted in the Federal Communications Commission's 800 MHz proceeding, *Improving*

*Public Safety in the 800 MHz Band.* Going into our merger discussions with Sprint, honoring Nextel's 800 MHz obligations was a non-negotiable issue for Nextel, and it also was the easiest issue to resolve. Sprint and Nextel are committed to supporting the public safety community and its unique communications needs.

After years of fighting for a comprehensive solution to public safety interference in the 800 MHz band, Nextel is proud of the role it played in helping to bring about a solution to this important public safety issue. I want to thank members of this committee, including Chairman Barton, Chairman Upton, Representative Dingell, Representative Markey, and Representative Rogers, as well as our partners in the public safety community and the many others that supported us in seeking a fair, timely and complete solution to the critical issue of public safety communications interference. As many of you know, on February 7<sup>th</sup> 2005, Nextel accepted the terms of the Commission's order and we have already begun work on this critical project. We intend to move as quickly as possible to implement the FCC's decision. Our nation's first responders deserve no less from us.

### Conclusion

Thank you again for the opportunity to discuss our pending merger with Sprint. This merger makes sense for our customers, our employees and our shareholders. It will result in a more formidable communications competitor and will accelerate the introduction of the new products and services our customers demand. I would be pleased to answer any questions you might have.

Timothy M. Donahue

President and Chief Executive Officer  
Nextel Communications, Inc.

Tim Donahue has served as president and chief executive officer of Nextel Communications, Inc. since August 1999. He began his career with Nextel in January 1996 as president and chief operating officer.

During his tenure, Donahue has helped position Nextel as an award-winning leader in the telecommunications industry. Frost and Sullivan named Nextel as the 2003 Mobile Communications Company of the Year, and *BusinessWeek* ranked Nextel number one in its 2003 IT 100 list. Donahue was also recently named Ernst & Young's 2003 Entrepreneur Of The Year® award winner in the Networking and Communications category and Ernst & Young's 2003 Entrepreneur Of The Year® award winner in the Greater Washington area.

Before joining Nextel, Donahue served as northeast regional president for AT&T Wireless Services operations from 1991 to 1996. He is a graduate of John Carroll University with a B.A. in English Literature.